

# Humanizing Growth Series

Ramon Laguarta & Frank van den Driest in conversation

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**Ramon Laguarta**



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In this conversation, IRG co-founder, Frank van den Driest and Ramon Laguarta, CEO of PepsiCo, discuss shifts in PepsiCo's business approach and how that translates into a focus on all stakeholders. Ramon talks about evolving definitions of business 'growth' and who he regards as his key stakeholders when he thinks about driving growth for the corporation. He outlines how he encourages people in PepsiCo to get closer to the consumer and how a policy of decentralization at PepsiCo is underpinned by the need for deep understanding of local consumers. They discuss regenerative agriculture and how it is critical to a sustainable food system one that will allow large food companies like PepsiCo to thrive and survive in the long-term, whilst ensuring that the planet stays fed. The conversation has been edited and condensed to allow for easier reading.

## THE MEANING OF GROWTH

**F** Hello, Ramon. Where are you and can you describe in one word how you feel at this very moment?

**R** I'm in Connecticut, with Maria, my wife. We've been in our home here, for quite some time.

I feel quite optimistic - that's how I would describe my mind state today. I think the reality is that society is evolving very quickly to close to normality here in the US. But I've been traveling already a little bit in the last few months, and I see light at the end of the tunnel in our associates and in our people everywhere. And I'm hopeful people have reflected over this past 18 months and that they are moving to better spaces and willing to make a difference.

**F** Let's start talking about Humanizing Growth - if you hear these words, what comes to mind? What are your spontaneous associations?

**R** Let me start with growth. Growth is essential to what we do as organizations. Our wealth creation is linked to growth and if you look at the consumer goods industry, there was a phase, maybe a few years ago, where some investors favored what I would call non-growth models, cost reduction models.

Fortunately, everybody has realized that growth is the essence of what we do in business and is the only way

to have a sustainable company that creates jobs and has societal impact. So, growth is essential.

I like the way we're qualifying growth through the word 'humanizing' in the sense that how you create growth can be done in multiple ways. How you distribute the wealth that gets created through growth can be done in many ways. I think the concept of humanizing, putting human beings in the center of the value that gets created through growth and the role that companies play in society is a very good way of describing what I would consider as an important move in the way investors look at organizations.

It's been an important pivot in the last 10 years or so, but most importantly in the last few years. Both in pivoting to growth and pivoting to a type of growth that makes a positive impact on societies beyond the more conventional way of measuring companies' success, which was financial performance. I must say financial performance continues to be a critical metric of any organization, especially public companies like ourselves.

I'm not saying by any means that we are not responsible for generating outstanding financial performance and that must be a critical pillar of our accountabilities as leaders of organizations. However, we must also have a broader mission. How do we catalyze the energy of our associates, the power of our brands, the financial resources we have, how we invest our capital in transforming societies for the better?

## KEY STAKEHOLDERS

**F** When thinking about that type of growth what are the stakeholder groups that come to mind most spontaneously for you?

**R** The most important one to me is my own associates. We are an organization that has a large human footprint - we're almost 300,000 PepsiCo associates around the world. And then our ecosystem of associates, including our bottlers, if you add those, our ecosystem is in the 600,000 to 700,000 people. That's not including distributors or farmers. Making sure that our associates are developed. That they are given the opportunity to be themselves. That they're given the opportunity to grow. That we upskill them. That we give them the chance to realize their full potential. To me that is my number one priority and my biggest responsibility.

Of course, I cannot deny that I respond to shareholders. I wish this were Laguarda Inc, then it would be an easy life - I would just have to deal with my wife and my sons. But I have a much more complex ownership structure, which means that I have to respond to them with good returns. Otherwise, everything else I dream for this company is not going to happen. Fortunately, our corporate values are really linked to that broader societal impact, but we only have the right to do that if we deliver very good financial returns.

Then more and more communities are relevant to everything we do. We've always been a company that has been rooted in the communities just by the type of product we develop and the supplier base that we have. We're a big farming company. We're a big food company - our food business is bigger than our beverage business so we're very rooted in agriculture. We have a lot of links to farmers. And with farming, we really go to the roots of society. The people that grow our food, the people that are in contact with nature that are really the ones that are I always love to go and talk to. I like the way farmers think and how they value nature and how they value the basics of life. To me our communities, especially the farming community, and obviously our suppliers and customers are the other set of stakeholders.

Those are three. Obviously, governments - we're a meaningful size in many markets in many countries around the world. We are the largest consumer goods company in the US, for example, or in Russia or South Africa. Big markets where we're very large and the governments always pay attention to us. And we have a responsibility to improve the society along with those governments. Ensure that the rule of law is well established, especially in some of the emerging developing markets.

So, we have other responsibilities along with just the financial or business development metrics that you would think of a company of our size being accountable for.

**F** Isn't it with these stakeholders a little bit like with children where you try to divide your attention evenly, but sometimes the loudest gets most attention? Or you just think afterwards, oh, I maybe should have paid more attention to him in your case. Do you recognize that? Is that like a continuous balancing act?

**R** You're exactly right. You adjust your language, you adjust your thinking, and how you can add value to each one of your sons. They're all different and they all have different needs and your empathy to each of them is different, depending on the state of their life and problems they're facing or opportunities or whatever. So, you clearly adjust

I would say with different stakeholders you also have to adjust. You have to change your language. You have to try to understand what they're trying to do and how you can serve their needs. And you are an aggregator of those different needs in hopefully an inclusive business strategy that can serve the needs of its different stakeholders. That's the complexity reality of my job and all the leaders that we have in the different business units. It's trying to aggregate those different needs. Sometimes conflicting, sometimes not really conflicting but diverging a little bit. And try to aggregate them into a single business strategy that delivers as much as possible to the needs of all the stakeholders.

You're never going to have them 100% happy. The tensions exist. The reality is that everybody's going to pull you in a different direction. You need to be able to stay firm to your vision, pragmatic on your adjustment to the needs in every moment. And the journey is never going to be this straight line. Anybody that thinks that a straight line is the closest way to destination is mistaken because maybe you'll never get there. You need a clear North Star that guides you with your values and where you think the company should go.

Now, how do you adjust to those different stakeholders throughout the life of the company, the life of your tenure, your leadership time? That's the art of management. The art that makes you, in the end, successful or less successful and happier or less happy at the end of your tenure. That's how I think about it. There's never a right or wrong. There are always different ways to do the same thing, styles, priorities that might get you there at the same time. The complexity of our roles as leaders is to take what could be very conflicting needs and converge them into a business strategy that is accepted by everybody and that everybody feels like, hey, these guys are doing 85% right. Of course, if you can get to everybody thinking you are 95% right, you're doing extremely well. But to have somebody thinking you're doing 0% right and another one 100% right, that's probably not the right balance. You're most likely not going to get to your destination.

**F** We have done some research in the past two years at the Institute in terms of the importance of different stakeholder groups. You haven't mentioned consumers but being PepsiCo, you probably have consumers also very much at the heart of your focus. But what we've seen is that pre-COVID most of the attention went to shareholders and consumers. And then COVID hit, and it's shifted dramatically to employers, colleagues, and communities as prime focus stakeholder groups. Did you recognize that shift when the pandemic hit?

**R** For sure, we had to run our businesses in very difficult circumstances during the pandemic. It made us a bit more internally focused, ensuring the wellbeing of our people and that they were engaged and protected. I think we became a bit more human as companies and our leadership priorities had to change. And that's how I try to communicate to our people - that we must be much closer to our people from the human dimension during these times. We needed to understand it not so much as business leaders but as human beings, because our colleagues were all going through different personal circumstances and that was critical.

Obviously the same for communities. We operate in communities that were badly hit and we reacted immediately. We're very distributed in our manufacturing and our warehousing and sales structures. And we are part of communities in many, many different cities around the world. And we try to always support those communities and be part of those communities.

We significantly increased our foundation money. We increased employee donations and available funds to immediately provide food. In the US, for example, you would be surprised, but a lot of children in less favored communities, their main meal was at school. So, one of the things we discovered early on is that those children, because they were at home now versus going to school, didn't have anything to eat. We felt immediately that our role was to support those children and through the foundation already have a lot of infrastructure. So, we leveraged that infrastructure. We got to a lot of households, and we provided the main meal to children during the early phase of the pandemic until society changed.

We were quite agile and quite focused in what we thought was the main responsibility we had to our communities and to our people. Obviously, consumers, have always been at the center. I didn't mention consumers earlier because, in a consumer goods company, they are obviously our number one. They vote with their wallets whether we are going to be in existence or not. They're not a stakeholder, they are the reason for our existence.

## CONSUMER CENTRICITY

But we also became more consumer centric. The PepsiCo Way is a set of behaviors that we created for ourselves about three years ago. One of them is being more consumer centric. Sharpening our understanding of consumers in a more granular way, in a way that we can really understand the human side of consumers and the functional needs of consumers - that is strategic capability that we want to develop even more.

We studied consumers before the pandemic. But during pandemic, there were so many shifts in consumer decision making and loyalty to brands or even occasion changes. The way they consumed our products changed dramatically because of new habits. We became closer to consumers and that's a skill or a capability that we're taking with us post-COVID.



**F** You mentioned earlier that you really liked to engage and talk with farmers and learn from them. And I assume that the same is true for consumers. How do you, and I mean you, Ramon, personally, how do you listen to consumers?

**R** It's an interesting question. We have a normal practice where whenever we go to any market we visit consumer households and spend time in the house with consumers. I find that quite enlightening. Obviously I've lived in quite a few markets in my life. So, I've already developed the ability or the skill to recognize that consumers are quite different around the world and that we need to learn about the consumer in their culture and environments. Visiting consumers is always a very helpful way to understand the realities of what they eat, what they drink, how they live, what they think, what are their dreams, and what are their fears.

This is something that we have as a practice in the company. I like to do it every time. I try to also personally experiment with a lot of the things that are happening around us in terms of new digital services, products.



I try to go to the supermarket, buy our product. You buy your own products. You buy competitor products. And you do your own sampling sessions with your family and your friends and so on.

I like to stay close to the reality of our products and our consumers. But, in the end, you must rely on the teams that are closer to the field. In terms of how we want to be as a company, it is a challenge in executing this vision. But we want to be an extremely locally empowered company that is very close to local consumers and that activates from brand activation to innovation to the way we talk to consumers, to the way we sell our products, in a very local way. And that's hard to do for the 200 markets that we operate in. But we think we're building the infrastructure, the capabilities, and the agility of our supply chain to be very local. And that I think is an advantage for us long-term if we can execute that.

### DECENTRALIZING PEPSICO

At the same time, we're trying to be as integrated as we can on the things we can do across the company so that we don't de-leverage ourselves. We leverage the scale of the company on the how we do things. On what we do, we're trying to be as consumer centric and local as we can. And we have an advantage versus other industries in the sense that our supply chain tends to be very local.

That allows us to be, even though we're a very large global company, to be a very local company at the same time in the way we operate, the culture of our organizations locally, and how we become closer to consumers.

That is one of the organizational constructs that we're trying to create because I think the world is becoming more and more local. And this is driven by political reasons, but also consumers are going back to their cultures as a way to feel better and more empowered. The challenge for large companies is how we keep the edge versus local companies that obviously are much more flexible. How do we leverage our global scale at the same time becoming extremely competitive at the local level? And that is one of the big management challenges of this century.

**F** You took the reins at PepsiCo a good three and a half years ago. What is the most important intervention that you did to deliver on that vision of the What is local and the How is global?

**R** There are a couple of things we did here. Our company has always been quite decentralized. We've never been a company that was centralized in the way some other large consumer goods companies have been.

**R** First, we developed the capability for deep consumer understanding at a local level. Second, in terms of leadership, we're pivoting more to a general management structure but that is geographically based. That general manager is accountable for the end-to-end generation of value in that market. We think that the next S-curve of growth and cost reduction will come from an end-to-end view of the company. We felt that we there was a risk of losing a lot of opportunities by siloing the company too much as we had in the past.

We went into more of a general manager organization type. That general manager obviously has some framework to operate and some boundaries that he/she needs to be operating within. There's a lot of things that we're making untouchable for a general manager in terms of what we think are the long-term value creators and differentiators, especially the way we handle data, systems investments, culture, obviously compensation. There are some critical things that the general manager must leverage using the PepsiCo system. But we're empowering them much more at the local level, and I'm talking the 20 top markets, I'm not talking every market around the world.

The top 20 markets are empowered to run the business end to end, to take a bit more risk locally, to be closer to the local consumer, innovate in the way that they can make a difference locally. Remember that we're in food, food is very cultural and understanding the kitchen logic of every country, understanding the consumer occasions in every country really give you a lot of insights into how to develop good foods and good beverages to compete in the market.

**F** Especially with these markets now more empowered, don't you miss it being so close to your consumers?

**R** I do. I grew from the very bottom of the company. My first job was marketing manager - I joined the company as a marketing manager in Spain. But quickly I went to Greece as general manager and I thought that was probably my best job. My best job was when I was in a small country, like Greece, where I was really empowered to transform that business and we had a great team. And I loved the culture and the empowerment I had. And because it was small enough, nobody really cared about Greece. So, I had the time of my life transforming that market. So, I miss it. When you're far away from the first line, you miss something, especially if you grew up in that system.

That's why before COVID I spent a lot of time traveling. Traveling because although you get a lot of reports, and we have a great information system. So, that's fine. You can run the company. But you cannot feel the company from headquarters. You need to stay close. You need to visit the factories. You need to talk to the employees in the factories, the sales teams.

You need to feel the temperature of the company, the passion for the mission. Are we really connecting with our customers or not? You need to visit those customers. They need to give you feedback on what's going on with your company, where are your service challenges, where are your opportunities, what's wrong with your quality, what's wrong with your employee motivation? All that is critical to run a global company that is competitive.

So, I'm very passionate about visiting the markets and our general managers know that I will go and see them and spend quality time with them in the market. And I will give them a hard time. But at the same time, I will support them, and I will try to be as empathetic as possible with the challenges and try to be a good coach to them, help them develop, and run a great business. That's the way you compensate for being away from the daily management of the business.



#### MANAGING POST-COVID

**F** The last year and a half must've been doubly challenging for you - being both not in a country and only working from home?

**R** Well, we've learned to compensate. And I think I'm sure a lot of people on the call found that. We had the technology available, but we didn't use it.

I also never had previously, for example, a couple of forums that we have today in the company that are extremely valuable to me. We created this top 200 senior managers forum in the company. And we were meeting maybe twice a year physically in New York or somewhere else in the world. Now we have monthly calls, a couple of hours. We interact. It's extremely helpful for them to understand what's going on the global level to really become owners of the company. Leaders of the food company versus their individual markets or functions. And for me and for my leadership team, to make sure they understand the priorities, they understand the decisions we're making, some of the capital allocations, some of the investment allocations we're making and the why. And it's made the company closer more than ever before.

In a way, yes, you're missing some of the trips. In another way, you have opportunities that were there

for us, but we were not taking advantage of - I'm now meeting my general managers around the world one on one, maybe a once a quarter. Before I was meeting only a few of them. Obviously I cannot be on the road all the time. But using the technology has given me also the ability to connect with them more as one-to-one where you see how they are, the energy level, are they going through some tough times or not, what are the key business challenges they're facing or personal challenges. And it gives you an opportunity to see the company, to connect with your top leaders in a one-to-one way in a way that I don't think we're going to go back again. We're going to use this in the future.

You're still going to have your trips. But we will be able to pull the company together in different ways. We're doing town halls of 30,000 people. We were not doing that before. Previously we were not conscious of the technology and how it would allow us to really create unique forums where you can be so inspiring and energizing to your full company. And I think it's making us a better company, it's a powerful new way of leading that is going to make us better leaders.

**F** Briefly back to what we talked about, engaging with farmers, with consumers, and so on. You also use technology... When's the last time you engaged with a consumer, a household? And I realize that visiting them in person may not have been possible.

**R** The last time I talked to a consumer was in Mexico 10 days ago. I was able to go. I was there with our Mexico team in Central Mexico. I was able to go to households already. So, we're back to real life. Here in the US I've been traveling quite a lot. Last time I was with farmers was in Iowa about three weeks ago. I'm very interested in the importance of building a sustainable food system. And what companies like ours are trying to do is get involved in the concept of regenerative agriculture

Obviously, there are other dimensions on how we create a sustainable food system, including packaging, including how do we eliminate waste for the system, and how we create more nutritious products. There are multiple dimensions of how we need to build a holistic, better food system. And there's a lot of effort, government effort and large companies and NGOs, and we're working together to create a set of incentives and commitments for all of us to do better.

There's one element that links to the farmers, that connects with several of our key brands that is worth talking about, which is this idea of regenerative agriculture. And the truth is that through the search for volume and better output in the agriculture system, we have lost a lot of the diversity. Diversity in terms of the number of species that get grown. We've degraded the quality of soil around the world through our farming practices, the use of fertilizers, the use of land in general. And there is an urgent need for us to go back to farming practices that are sustainable for the long-term.



If we recuperate the quality of soil, the nutrients in the soil we will prevent the world eventually becoming a desert.

That is something we're extremely committed to and that I'm very passionate about. And that's why I'm going to see these farmers to understand the challenges that they have to make it happen. From the business perspective, their P&L, where they need help and I think that's a role that large companies like ours we can put together... We can help the governments change subsidies and make changes.

For example, connecting humanizing growth and brands, Lays is one of the largest food brands in the world. It has a lot of connectivity with farming through the potatoes that are the basis of the product. And we're trying to connect Lays with the farming community in a different way. Connecting through the way that Lays talks about the potatoes, the ingredients, the connection with the farmers who grow the potatoes and how we celebrate those farmers.

And then helping elevate the need for sustainable farming and regenerative farming through a brand like Lays, which has maybe 500 million consumers a day across the world. That brand has the power to elevate awareness and hopefully create commitment, because awareness is one thing, commitment is a very different one - towards the big changes are necessary in society.

## HUMANIZING GROWTH

You were asking about humanizing growth and the role of brands. I think this is a great example of how a brand like Lays, a global brand, can really have an impact on the farming communities and their livelihoods and most importantly their long-term viability.

This is how we're thinking about the role of our brands and how we link the role of our brands with the mission that we have as a company. And addressing the potential risk that our company faces if the world suddenly cannot grow potatoes because of climate change and degraded soil quality. It's an integrated program and it's the way we're thinking about how we drive growth. We want Lays to be a preferred brand globally, but how that brand can drive growth and societal change through its brand power and consumer engagement.

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A strategic end-to-end transformation with sustainability at the center, driving action with industry-leading 2030 goals.



At the education level, I have several examples. Understanding the sustainable food system. We need to explain it much better. We need to make the consumer understand what it is. Even things like recycling for our beverage brands. If you think about Pepsi in Europe, for example, we're 100% recycled and we're really leading with that message now. Even though we're a challenger brand in many markets in Europe, we're leading with that message. Maybe the European consumer is more aware of the need to recycle.

Even here in the US, we will have to educate consumers. The high value of plastic and how, as a society, we need to recoup this high value material to turn it into new products and we cannot just throw it away. It's a huge waste for society, from the economic value point of view and then obviously it has environmental consequences as well. But it's a real waste. If this was your asset you would never throw it away like we're throwing plastic into the environment. It has a lot of value for us as society. All these things are spaces where brands can play an amazing role of educating and leading by example.

We have this thriving business in SodaStream. Some of our colleagues in Europe probably know the brand better. In the US, it is less developed. But that brand is part of our commitment to change consumption models in the world that will lead us to a better society in the long-term. From the CO2 reduction, from plastic reduction, from consumer personalization - you can make your own combinations at home.

That's the ultimate desire of any consumer - to have your perfect customized product. With SodaStream you can do that at home in a way that involves no transportation of liquids, no plastic. It's just an amazing business model and consumption model that we're pushing.

There is a humanizing angle to this in the sense that we are allowing consumers to make their preferred products at home. If you think about humanizing in a much broader sense, the kind of society we want to live in, these consumption models will drive a very different society. Imagine that we can really convince consumers to make their drinks at home. We're thinking about the equivalent for a snack. What would be an equivalent where we can help you create your own snacks at home - that would eliminate a lot of the movement of goods and the packaging needs and all that. Those are fundamental leadership responsibilities that we have as companies.

**F** I wanted to ask you about your prioritization or choices, I saw, for example, in this conversation when you talked about engaging with farmers, I saw a light in your eyes. And the same when you talked about soil. So, that's clearly very close to your heart. Are there other things or interventions, decisions that you've pushed because you felt personally also really strongly about it?

**R** Listen, at the end of the day everything you do, you're going to do it because you believe in it. If not, you're not being an authentic leader. You cannot

run a company or do these kind of jobs where you're 24/7. I mean it 24/7. That's your life. You're basically working. You cannot do this and feel good at the end of the day or when you take a pause and reflect. You cannot do this if you're not doing this from your inner values. You really need to be authentic here.

For me, there is a passion. I've always been developing people. I'm very passionate about human beings and how we're creating better people through the means of the company, the opportunities we have for them to grow, to upskill them, to give them more responsibilities. And they can create wealth for their families. Just a small example, one of the most exciting things for me as a leader is when I go to our factories in developing markets and you talk to an operator in the line and say, "Hey, how long have you been with PepsiCo?" "10 years, 15 years. And thank you very much because you helped my family. You helped my sons go to college. Or you helped me put my kids through education." That is the most fulfilling thing that you can have. When people tell you, "Thanks to your company, I've been able to do this," to me this is meaningful impact in the world.

There is building a better planet for our kids. There is farming, the land that we basically take food from. There is the huge issue of gas emissions. We're all committed to that. We, as a company, made the commitment to be net zero by 2040, a huge effort. This has to come from inside, otherwise the financial trade-off you have to make - if you don't believe in it, you're not going to do it.

In our case and my case, there's also an important transformation about the perception and the reality of the products we sell. I don't think our consumers connect our brands with the products that we grow. People don't connect Lays with potatoes. People don't connect Doritos with corn. And I want our consumers to understand that, and I want to give consumers the best tasting product with the best nutrition. Can we make Lays with less sodium? We've been in this journey for many years. We continue and we're going to take risks in that. Can we make Pepsi or Lipton or Starbucks, some of our big brands, with less sugar? I'm sure we can. We're developing amazing non-sugar versions of our best products because the technology we've been working on for many years now allows the consumer to basically trade-off between products, sugar or non-sugar at zero taste sacrifice.

How do we make the best tasting products? Because our consumers really vote with their tastes unfortunately. They are very smart. When we change the product, they get it right away. So, taste is paramount. But then how can we make, maintaining that excellent taste, products with better nutrition, lower sodium or less sugar?

There are few pillars that I'm passionate to drive - our associates' development, the environment, the nutritional profile of everything we sell - that come from within. If I think about the day I leave the company, somewhere in the next decade, I'd love to look back and say I've made a difference. That this is not only a great performing company financially, but we've made a difference in our culture, in how people feel, and obviously the profile of what we sell including these new consumption models. That is the energy that you need internally to get up every morning and go for it and inspire your people. You have to be resilient and optimistic in this world because if not obviously the organization will take a hit. And so that's our responsibility we carry in our bags.

### THE ROLE OF MARKETING

**F** You started your career in marketing. I was going to ask you a lot of questions about your expectations for marketing. But by all the stories you said, it's very clear that you have a very clear expectation also in terms of just what you were talking about, product quality improvement, lower sugar, et cetera. Marketing will need to deliver that. And you will be on top of them, right?

**R** Marketing is the intelligence that drives the growth. And so they need to be the architects of growth for the company. And being those architects of growth requires end-to-end understanding, understanding not only the consumer but what else is behind the organization to drive growth in a responsible way, in a way that is connected to the values of the leaders and the associates of the company, and the company we want to be.

And without a good vision from the marketing team, not only consumer vision but the full architecture of growth for the company, then there's a lot movement but no traction. We don't know where we're going. I'm really committed to this journey.

Thank you. Thank you, Frank. And thank you, everybody. And all the best to all of you and stay passionate with your vision and your values. Thank you. Bye-bye.

**F** Thank you, Ramon.